



TRAVELWAYS LTD. ANNUAL REPORT 1974

Directors and Officers

Laurence J. Needler,
President and Director

Lloyd G. Wait, C.A.
Executive Vice-President
Secretary-Treasurer and Director

Maxwell L. Rapoport, Q.C.
Director

Robert B. Burgess,
Director

Gerald A. Stock,
Vice-President and Director

Brian R. O'Connor,
Vice-President and Director

Barry L. Needler,
Director

B. John Langdon,
Vice-President and Director

Jean J. Charlebois,
Vice-President and Director

Auditors

Cossar, Hector, Payne & Co.,
Toronto, Ontario.

Solicitors

General Counsel
Geisler, Burgess, Macdonald
Toronto, Ontario.
Transportation Counsel
Rapoport & Cole
Toronto, Ontario.

Registrar and Transfer Agents

The Royal Trust Company

Executive Offices

30 Heritage Rd., Markham,
Ontario L3P 1M4

Subsidiary Companies

Trailways of Canada Limited
Stock Bros. Bus Lines Limited
Travelways School Transit Limited
Capital Coach Lines Company Limited
Capital Bus Sales Limited
Frontenac Coach Lines Limited
Rathbun Bus Service Limited
Stock-Algar Coach Lines Limited
Maple Leaf Coach Lines Limited
C. H. Norton Bus Lines Limited
Esquesing Bus Lines Limited
Inglis Bus Lines Limited
Harold James Cook Limited
D. M. Speer Company Limited
LaRue Bus Lines Limited



(L. to R.) — B. John Langdon, Larry J. Needler, Brian O'Connor, Lloyd G. Wait, Barry L. Needler, Gerry Stock, Robert B. Burgess

Financial Highlights

	1974	1973
Total Revenue	\$19,192,824	\$12,155,353
Operating Expenses	12,450,824	7,598,388
Depreciation	1,436,433	1,056,144
Taxes on Income	955,968	670,201
Net Income	896,331	679,053
Funds provided from Operations	2,498,034	1,855,059
Earnings per Share	1.00	.75



President's Report



To Our Shareholders:

It is my pleasure to submit the Annual Report of the Company for the year ended December 31, 1974.

A year ago in this report we predicted that 1974 would be a banner year. In retrospect, the Company's results for the year exceeded our expectations. Almost every aspect of our business prospered and overall results for the year were considerably better than anticipated.

The general demand for mass transportation, school busing and services provided by our expanding tour operations remained buoyant throughout the year and this pace of business is continuing in 1975.

Operating revenues in 1974 increased to \$16,193,786, while sales by our bus division increased to \$2,999,038. Net income for the year was \$896,331 representing \$1.00 per share compared with 75¢ per share for 1973.

During the year the Company purchased all of the outstanding shares of C. H. Norton Bus Lines Limited and subsidiaries and of Maple Leaf Coach Lines Ltd. together with certain assets and operating authorities of Grant J. Norton of Burlington, Ontario. A total of 479 buses was involved in this series of purchases from the Norton family. This represented the largest single acquisition by the Company and accordingly its accounts have been consolidated from the date of acquisition which was August 1, 1974.

Total expenditures for new buses, garage and office facilities for the year were \$3,256,326, with rolling stock accounting for \$2,638,336, and land and buildings for \$617,990. New offices and garage facilities were constructed at Markham, Ontario, partially to accommodate new executive offices and to handle expanding business in that area. A second story was added to our Ottawa facility and leased under a long-term rental agreement. New terminal facilities were also constructed at our existing location in Lindsay. In addition, 12.5 acres of land were purchased in the Brampton, Ontario area to construct a garage and office facility for this area.

1974 also saw interest rates reach record heights. Since Travelways is a capital intensive company, these high rates adversely affected our operations. Rather than enter into long-term financial contracts at exorbitant rates, we chose to increase our working capital deficit and to await a more favourable market under which to finance these projects. This has proven to be a wise decision as the money market has improved and your management is currently reviewing several offers of long-term financing so as to substantially reduce our working capital deficit.

Safety is always uppermost in our minds and throughout the latter part of the year our film named "The Safety Chain" was shown to numerous School Boards, drivers and other interested groups throughout the Province. In addition, a program called "SBARS" (school buses are really safe) was developed and meetings held, bringing together safety officers of the Ontario Provincial Police, various local Police Departments, School Boards and company representatives to view and discuss the safety features presently being built into school buses.

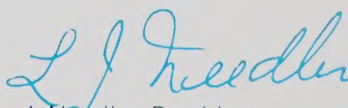
The acceptance of Travelways services continues. At the commencement of the 1974-75 school term we were successful in being awarded a contract with the Etobicoke Board of Education in Metropolitan Toronto involving some 60 vehicles. A further contract was also awarded us from the Metropolitan Toronto Separate School Board involving some 50 vehicles. Commencing March 1, 1975, the Township of Kingston contracted with Travelways to serve their urban area with local transit, this bringing to nine the number of Ontario Municipalities under contract to Travelways to supply their local transit requirements.

We expect our tour division will continue to enjoy substantial growth, assisted by the recent securing of domestic and international air appointments (IATA) and by the purchase in February, 1975 of The Frontenac, a 91 room beachfront hotel on Lido Beach, Sarasota, Florida. Our winter tour programs have had an excellent response from the public and advance bookings for our ambitious summer program are gratifying.

With the increased profits to be derived from our new contracts and with our acquisitions reflected over a full 12 month period, we are confident that we can look forward to a further continuation of our steady increase in profits during the year ahead.

The loyalty and dedication of our employees to our continued growth and success has been indispensable. To them and to our Shareholders, Directors and customers for their continued support, we express our sincere appreciation.

Respectfully submitted,


L. J. Needler, President



Regular management meetings are held to ensure efficiency



Travelways Mobile Safety Unit



Executive Committee (L. to R.) – L. J. Needler, Brian R. O'Connor, Lloyd G. Wait, Gerry Stock, Barry L. Needler



Latest model of GM Tour Coach



Tours & Group Charters



Modern Service Facilities



Special Orthopedic Van



Frontenac Resort Hotel, Sarasota Beach, Florida

Consolidated Balance Sheet as at December 31, 1974

ASSETS	1974	1973
Current assets		
Cash	\$ 16,431	\$ 59,147
Investment in short-term notes — at cost	—	200,000
Accounts receivable	1,796,394	1,129,964
Inventories at cost:		
Supplies	577,003	304,673
Buses for resale	614,571	794,780
Prepaid expenses	324,757	182,935
Long-term receivables due within one year	89,851	42,768
	<u>3,419,007</u>	<u>2,714,267</u>
LONG-TERM RECEIVABLES	175,190	70,645
Fixed assets		
Motor coaches and buses	13,109,667	8,310,022
Land and buildings	2,305,273	1,557,349
Other vehicles and equipment	733,771	344,512
Total cost	<u>16,148,711</u>	<u>10,211,883</u>
Less accumulated depreciation	<u>3,938,146</u>	<u>2,797,789</u>
	<u>12,210,565</u>	<u>7,414,094</u>
Goodwill and operating authorities (Note 2)	<u>4,275,682</u>	<u>2,685,648</u>
	<u>\$20,080,444</u>	<u>\$12,884,654</u>

Approved on behalf of the Board :

Laurence J. Needler, Director

Lloyd G. Wait, Director

Auditors' Report

To the Shareholders of Travelways Ltd.

We have examined the consolidated balance sheet of Travelways Ltd. and its subsidiaries as at December 31, 1974 and the consolidated statements of income and retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

LIABILITIES

Current liabilities

	1974	1973
Bank loans (Note 3)	\$ 527,563	\$ 320,000
Accounts payable and accrued charges	1,870,291	1,097,675
Accounts payable for new buses purchased for resale	791,383	931,532
Income taxes payable	446,806	225,106
	<u>3,636,043</u>	<u>2,574,313</u>
Long-term debt payable within one year	3,226,261	1,457,934
	<u>6,862,304</u>	<u>4,032,247</u>
LONG-TERM DEBT (Note 4)	7,363,807	4,294,902
DEFERRED INCOME TAXES	1,513,396	1,112,899
Total liabilities	<u>15,739,507</u>	<u>9,440,048</u>

SHAREHOLDERS' EQUITY

Capital stock

Authorized – 2,000,000 common shares without par value		
Issued – 900,000 common shares	1,382,438	1,382,438
Retained Earnings	2,958,499	2,062,168
Total shareholders' equity	<u>4,340,937</u>	<u>3,444,606</u>
	<u>\$20,080,444</u>	<u>\$12,884,654</u>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Consolidated Statement of Income and Retained Earnings for the year ended December 31, 1974

Revenue	1974	1973
Operating	\$16,193,786	\$10,158,627
Bus sales division	2,999,038	1,996,726
	19,192,824	12,155,353
Expenses		
Bus sales division — cost of buses sold	2,682,097	1,819,496
Depreciation	1,436,433	1,056,144
Interest on long-term debt including amortization of finance charges	771,171	332,071
Other operating and administrative expenses	12,450,824	7,598,388
	17,340,525	10,806,099
Income before income taxes	1,852,299	1,349,254
Provision for income taxes		
Current	679,166	400,548
Deferred	276,802	269,653
	955,968	670,201
Net income for the year	896,331	679,053
Retained earnings at beginning of year.	2,062,168	1,383,115
Retained earnings at end of year	\$ 2,958,499	\$ 2,062,168
Income per common share	\$1.00	\$.75

Consolidated Statement of Changes in Financial Position for the year ended December 31, 1974

Source of funds	1974	1973
Net income for the year	\$ 896,331	\$ 679,053
Add items not requiring funds:		
Depreciation	1,436,433	1,056,144
Deferred income taxes	276,802	269,653
Gain on sale of fixed assets	(111,532)	(149,791)
Total funds from operations	2,498,034	1,855,059
Proceeds from:		
Collection of long-term receivables	146,538	53,414
Sale of fixed assets	357,121	384,243
Increase in long-term debt	6,081,321	2,816,934
	9,083,014	5,109,650
Application of funds		
Purchase of:		
Land and buildings	747,924	930,739
Other fixed assets	5,568,263	2,116,574
Goodwill and operating authorities	1,590,034	626,081
Other	38,610	—
Long-term receivables on bus sales	251,083	116,059
Long-term debt paid or currently maturing	3,012,417	1,703,928
	11,208,331	5,493,381
Increase in working capital deficit in the year	2,125,317	383,731
Working capital deficit at the beginning of the year	1,317,980	934,249
Working capital deficit at the end of the year	\$ 3,443,297	\$ 1,317,980
Represented by		
Current liabilities	\$ 6,862,304	\$ 4,032,247
Current assets	3,419,007	2,714,267
	\$ 3,443,297	\$ 1,317,980

Notes to the Consolidated Financial Statements at December 31, 1974

1. Accounting Policies

The accounting policies of the Company are in accordance with generally accepted accounting principles and their basis of application is consistent with that of the preceding year. Outlined below are those policies considered particularly significant.

- (i) Acquisitions of subsidiary companies are treated as "purchases" for accounting purposes and accordingly retained earnings on the consolidated balance sheet include earnings of subsidiary companies only from their respective date of acquisition.
- (ii) Fixed assets are stated at cost less accumulated depreciation. Depreciation of motor coaches and buses is provided on a straight-line basis over their estimated useful life. Generally a highway coach is reduced to its residual value by the end of its fifteenth model year while a school or transit bus is reduced to its residual value by the end of its tenth model year. Buildings are depreciated on a straight-line basis over forty years from the date of their acquisition or completion. Other vehicles and equipment are generally depreciated on a declining balance basis using rates of thirty and twenty per cent respectively.
- (iii) It is not the Company's policy to amortize goodwill acquired prior to 1974 or operating authorities as, in the opinion of management, the value of these assets is increasing rather than declining. In accordance with current generally accepted accounting principles goodwill acquired after 1973 will be amortized on a straight-line basis over forty years. Goodwill acquired during 1974 will be amortized commencing January 1, 1975.

2. Business Acquisitions

During 1974 the Company acquired the business operations of the "Norton Group" which included all of the outstanding shares of C. H. Norton Bus Lines Limited (including its wholly owned subsidiaries) and Maple Leaf Coach Lines Limited, together with the proprietorship operated under the name of Grant J. Norton. The effective date of this acquisition was August 1, 1974.

The book value of tangible assets acquired on this purchase amounted to \$2,676,801 and the book value of goodwill and operating authorities amounted to \$225,968. The total liabilities of this group at the date of acquisition amounted to \$2,713,981, including long-term debt of \$711,339. The net book value of fixed assets of the companies was increased by \$1,035,839 to estimated fair value of \$2,806,157 as determined by independent appraisers. The estimated fair value of other assets of the companies approximated their book value. The excess of the consideration paid over estimated fair value of net tangible assets acquired, together with the book value of goodwill and operating authorities acquired with the subsidiaries, and the excess of the consideration paid over the amount attributed to the net tangible assets of the proprietorship amounted to \$1,548,534. This amount has been included on the consolidated balance sheet in "goodwill and operating authorities".

The consideration for the purchase of "Norton Group" consisted of \$1,712,193 in cash and the balance of \$835,000 by promissory notes payable, \$301,666 in 1975, \$266,667 in 1976 and the balance in 1977. The consolidated working capital deficit at August 1, 1974 was increased by \$1,803,273 as a result of this acquisition.

The Company has also acquired certain transportation assets of other companies during the year. The excess of the consideration paid over the amount attributed to net tangible assets on these purchases amounted to \$41,500 and is also included in "goodwill and operating authorities" on the consolidated balance sheet. These asset purchases were paid in cash.

3. Bank Loans

Bank loans are secured by an assignment of book debts and by debentures containing fixed and floating charges on all of the Company's (and its subsidiaries') undertakings, property and assets.

	1974	1973
4. Long-Term Debt		
Long-term bank loans, secured (Note 3)		
due to 1979	\$ 3,872,598	\$2,077,678
Realty mortgages 6%-12½% due to 1988 . .	480,273	427,504
Chattel mortgages 6%-13% due to 1981 . .	816,747	163,838
Note payable, 8% due to 1981, secured by automotive equipment	163,219	187,171
Note payable, 8% due to 1980 secured by shares of a subsidiary company	157,640	—
Unsecured notes, 6% to 12% due to 1982 . .	2,059,382	1,430,173
Lien notes on automotive equipment due to 1979	3,040,209	1,466,472
	<u>10,590,068</u>	<u>5,752,836</u>
Less amounts payable within one year . . .	3,226,261	1,457,934
	<u>\$ 7,363,807</u>	<u>\$4,294,902</u>

Principal due within each of the next five years is as follows:

1975 \$3,226,261; 1976 \$2,384,502; 1977 \$2,220,316; 1978 \$1,455,840; 1979 \$647,430.

5. Remuneration

The remuneration for the year of directors and senior officers as defined by The Business Corporations Act (Ontario) was \$173,030 (1973—\$163,843).

6. Commitments and Contingencies

The Company has entered into the following agreements:

- (i) Leases for realty requiring payments aggregating \$24,896 in 1975, \$22,696 in 1976 and thereafter \$18,096 annually to 1978.
- (ii) A lease agreement for motor coaches, buses and equipment requiring payments aggregating \$90,004 in 1975 and \$9,004 in 1976.
- (iii) Conditional sales contracts sold to finance companies, with recourse, totalled \$378,607.

7. Transactions After December 31, 1974

- (i) On February 7, 1975, the Company purchased realty in Brantford, Ontario for a total price of \$100,000 payable in cash.
- (ii) On February 10, 1975, the Company purchased realty in Burlington, Ontario for a total price of \$210,000, payable \$50,000 on closing and the balance by a mortgage due in 1980 bearing interest at 8%.
- (iii) On February 28, 1975, the Company purchased the land, buildings, and equipment of the Frontenac Hotel in Sarasota, Florida for a total price of \$1,005,000. A cash payment of \$305,000 was made on closing and the remainder of the purchase price was satisfied by the assumption of a first mortgage for \$136,241, a second mortgage for \$285,809 and by a promissory note for \$277,950 given to the vendors. The first mortgage bears interest at 6¼% and is repayable in blended monthly instalments of \$2,058 with the balance due December 1, 1976. The second mortgage bears interest at 7¼% and is repayable in blended monthly instalments of \$2,500 with the balance due March 1, 1979. The promissory note is secured by a deed of trust, bears interest at a variable prime rate and is repayable in quarterly instalments of \$5,000 with the balance due on March 1, 1980.

Five Year Comparative Summary

Year ended December 31	1970	1971	1972	1973	1974
Revenues	\$3,537,902	\$4,945,974	\$9,389,576	\$12,155,353	\$19,192,824
Income before extraordinary items	\$ 102,635	\$ 257,936	\$ 468,748	\$ 679,053	\$ 896,331
Net income	\$ 102,635	\$ 295,726	\$ 495,067	\$ 679,053	\$ 896,331
Funds provided from operations	\$ 557,607	\$ 789,255	\$1,412,876	\$ 1,855,059	\$ 2,498,034
Total assets	\$3,966,717	\$4,725,015	\$9,574,654	\$12,884,654	\$20,080,444
Earnings per share	\$.15	\$.44	\$.55	\$.75	\$ 1.00
Number of shares outstanding	675,000	675,000	900,000	900,000	900,000
Number of buses in service	314	418	732	924	1,492

